MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BAC2684 – FINANCIAL STATEMENT ANALYSIS

(All sections / Groups)

18 FEBRUARY 2023
2.30 p.m - 5.30 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **SEVEN** pages, excluding the cover page.
2. Answer **ALL** questions. All questions carry equal marks, and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

(a) Financial statements of a corporation are the Statement of Financial Position, Statement of Changes in Equity, Statement of Profit and Loss and Other Comprehensive Income and Statement of Cash Flows while notes to the accounts accompany these financial statements. Briefly explain why financial statements are important in the decision-making process in financial analysis.

(6 marks)

(b) Inventory that has a market value below the historical cost should be written down to its net realizable value. Discuss the statement in accordance with the accounting concepts.

(4 marks)

(c) Briefly define earnings management. What are their implications for financial statement analysis?

(5 marks)

(d) Discuss whether you believe analysts' forecasts are more relevant for business decision-making than financial statement information.

(5 marks)

(e) "Debt is a supplement to, not a substitute, equity financing". Comment on this statement.

(5 marks)

[TOTAL 25 MARKS]

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QUESTION 2

The draft financial statement of AAS Berhad for year ended 31 December 2021 were as follows:

Consolidated Statement of Profit or Loss
For the Year Ended 31 December 2021

	RM '000
Revenues	16,000
Cost of sales	(3,000)
Staff costs	(2,000)
Overhead expense	(2,000)
Depreciation and amortization expense	(5,000)
Other expenses	(3,000)
Interest expense	(10,000)
Loss before taxes	(9,000)
Income tax expense	(800)
Loss for the year	(9,800)

Consolidated Statement of Financial Position
As at 31 December

	2021 RM '000	2020 RM '000
ASSETS		
Non-current assets		
Property, plant and equipment	24,220	12,834
Goodwill	3,000	2,000
	27,220	14,834
Current assets		
Inventories	3,130	1,180
Trade receivables	1,785	2,640
Marketable securities	110	840
Cash	1,225	898
	6,250	5,558
Total assets	33,470	20,392
EQUITY AND LIABILITIES		
Equity		
Common stock	10,000	10,000
Retained earnings	(15,600)	(5,800)
Revaluation reserves	10,000	-
Total equity	4,400	4,200
Liabilities		
Long-term borrowings	23,870	13,832
Current liabilities	5,200	2,360
Total liabilities	29,070	16,192
Total liabilities and equity	33,470	20,392

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Additional information:

1. Financial ratio of AAS Berhad for the year 2020 and the industry average for 2021 were as follows:

	2020	Industry Average in 2021
Days to sell inventory	55.60	41.20
Times interest earned	1.24	5.50
Current ratio	1.14	1.23
Acid-test ratio	0.55	0.58
Long-term debt to equity ratio	5.40	0.65

2. The company generated gross profit margin of 50%.

3. For the year 2021, the corporate tax is at 24%.

Required:

(a) Compute the following financial ratios for AAS Berhad for 2021. Round the answers to two decimal places. Assume there are 360 days in a year.
   (i) Days to sell inventory
   (ii) Times interest earned
   (iii) Current ratio
   (iv) Acid test ratio
   (v) Long-term debt-to-equity ratio

(10 marks)

(b) Discuss what each of these five selected financial ratios means in terms of the risk analysis of AAS Berhad. Your discussions should include comparisons with the past year and the average industry ratios.

(10 marks)

(c) The finance manager presented the above-computed ratios at a departmental meeting. The chairman of AAS Berhad, who attended the meeting, commented that the financial statements are not the sole output of the financial analysis. List **FIVE** other financial analysis tools.

(5 marks)

[TOTAL 25 MARKS]

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QUESTION 3

(a) Explain the purpose of the Statement of Cash flow and how cash flow is different from the accrual income measure of performance.

(4 marks)

(b) Amlex Holdings Bhd reported the following profit & loss statement and comparative statement of financial position for 2020 and 2021, along with the transaction data for 2021.

Amlex Holding Bhd
Profit & Loss Statement Year Ended 31 December, 2021

	RM	RM
Sales Revenue		827,500
Cost of goods sold		700,000
Gross profit		**127,500**
Operating expenses:		
Salary expense	57,500	
Depreciation expense	12,500	
Rent expenses	2,500	
Total Operating expense		72,500
Income from operations		**55,000**
Other items:		
Loss on sale of equipment		(2,500)
Income before income tax		52,500
Income tax expense		(20,000)
Net Income		**32,500**

Amlex Holdings Bhd
Statement of Financial Position Year Ended 31 December, 2021 & 2020

	2021 RM	2020 RM
Assets		
Current:		
Cash and cash equivalents	27,500	3,750
Accounts receivable	27,500	28,750
Inventories	43,750	42,500
Total current assets	**98,750**	**75,000**
Equipment net	157,500	90,000
Total assets	**256,250**	**165,000**

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Liabilities		
Current:		
Accounts payable	43,750	32,500
Accrued liabilities	8,750	11,250
Income tax payable	12,500	12,500
Total current liabilities	**65,000**	**56,250**
Bond payable	105,000	66,250
Stockholders' Equity		
Common stock	65,000	25,000
Retained earnings	33,750	23,750
Less: Treasury stock	(12,500)	(6,250)
Total liabilities and Equity	**256,250**	**165,000**

Transaction data for 2021

		RM
(a)	Purchase of equipment	175,000
(b)	Payment of dividend	22,500
(c)	Issuance of common stock to retire bonds payable	16,250
(d)	Issuance of bonds payable to borrow cash	55,000
(e)	Cash receipts from the issuance of common stock	23,750
(f)	Cash receipts from the sale of equipment (book value RM 95,000)	92,500
(g)	Purchase of treasury stock	6,250

Required:

(i) Use the indirect method to prepare a Statement of Cash flow for Amlex Holdings Bhd for the year ended 31 December, 2021.

(16 marks)

(ii) Show the **relevant T-Accounts** in the preparation of the cash flow statement.

(5 marks)

[TOTAL 25 MARKS]

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QUESTION 4

(a) Return on Invested Capital (ROIC) or return on Investment (ROI) is one of the most widely recognized measures of a company's performance. List and explain the **THREE** key areas for measuring a company's performance based on the return on invested capital.

(6 marks)

(b) Explain what you understand by the term "Financial Leverage". What are the **TWO** main reasons a company's shareholders prefer external financing (debt)?

(4 marks)

(c) The following is the Statement of Profit and Loss of Canon Industries Bhd for the year ending 31 December 2020 and 2021.

	RM 2020	**RM 2021**
Sales revenue	1,881,743	2,049,592
Less:		
Cost of sales	(1,016,572)	(1,103,088)
Gross Profit	865,171	946,504
Operating Expenses	(677,714)	(735,393)
Operating Profits	**187,457**	**211,111**
Less:		
Interest expense	(25,099)	(23,969)
Profit Before Tax	162,358	187,142
Tax Expenses	(60,073)	(67,372)
Net Income	**102,285**	**119,770**

In addition, the following **data were extracted** from the Statement of Financial Position for Canon Industries Bhd for the year 2020 and 2021:

Data Extracted From Statement of Financial Position	**RM 2020**	**RM 2021**
Note payable	9,028	15,794
Current maturity of long-term debt	35,006	38,895
Long-term debt	583,428	544,533
Marketable securities – Current	(43,709)	(50,432)
Marketable securities – non-Current	(6,821)	(65,547)
Net Financial Obligation	**576,932**	**483,243**

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Data Extracted from Statement of Financial Position	RM 2020	RM 2021
Equity		
Common Stock	475,850	475,850
Additional paid-in-capital	22,089	22,089
Retained earnings	502,265	622,036
Treasury stock	(231,654)	(231,654)
Total Stockholders' Equity	**768,550**	**888,321**

Required:

(i) Determine the Net Operating Profit After Tax (NOPAT) for 2020 and 2021.
(4 marks)

(ii) Determine the Net Operating Assets (NOA) for 2020 and 2021.
(4 marks)

(iii) Determine the Returns on Net Operating Assets (RNOA) for 2021.
(2 marks)

(iv) Determine the Returns on Common Stockholders' Equity (ROCE) for 2021.
(2 marks)

(v) Compare the ratios for RNOA and ROCE. If ROCE is greater than RNAO, what does it indicate?
(3 marks)

[TOTAL 25 MARKS]

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